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Cotton and Products Annual

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Report Highlights:

Uzbek cotton production in MY2008/09 is forecast at 5.365 million bales, slightly below last year's level. although yields could fall if a dry weather pattern continues. About 70 percent of Uzbek cotton is still exported, although domestic consumption should slowly increase as new joint venture textile plants achieve full capacity.

Includes PSD Changes: Yes
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Annual Report
Ankara [TU1]
[UZ]

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Executive Summary

Although MY08/09 cotton sowing started about two weeks earlier than usual, very low level of precipitations in early Spring might lead to water shortage problems throughout Uzbekistan during vegetation period. The government's target for seed cotton production in MY08/09 nevertheless remains unchanged at 3.6 MMT. Because of expected shortages in irrigation water, Post's preliminarily forecast of MY08/09 lint cotton production has been lowered to 5.365 million bales. Uzbek cotton exports are forecast at 4.5 million bales; Asian countries and Russia will remain the traditional markets for Uzbek cotton.

Over the last several years it has become increasingly difficult for producers to attain state targets due to poor farming practices and the absence of appropriate production incentives. Nonetheless, the Government of Uzbekistan (GOU) is expected to maintain cotton area. Official production reports generally match the production targets, regardless of actual yields.

Domestic consumption is forecast to remain almost unchanged in MY2007/08, although it is expected to increase slightly each year as newly constructed textile plants reach their full production capacity.

The GOU still maintains tight control over all aspects of cotton production, including planted area, setting up production targets, prices, inputs, procurement and marketing the majority of the cotton in Uzbekistan. Domestic supplies are allocated according to Government's quota or plan, mainly to State Joint-Stock Company "Ozengilsanoat" which then distributes cotton to domestic millers according to sales contracts. It also is possible for local textile mills to buy cotton through the Commodity Exchange.

The cotton ginning industry is one area of the country's economy where new investments are needed but despite the government's efforts there has been little improvement. The spinning and weaving industries continue to invest heavily in new equipment as well as to renovate existing equipment due to improving profitability over the past four years. Domestic demand is getting stronger with a marginal increase over the last year, so also is export demand, especially in cotton yarn. Looking to 2007-08 the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than rely on low-value yarn based exports, if it wants to remain competitive in the global market.

Currently, there are more than 40 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2007, foreign investments in the textile industry reached about USD 1.0 billion. The main products produced and exported by textile mills are cotton yarn, gray fabrics and some textile garments.

Nevertheless, about 75 percent of all Uzbek cotton is still exported. As in the past few years, China, Bangladesh and Russia are still the major buyers.

Production

Although MY08/09 cotton sowing was completed ahead of time, some experts believe that lower than normal winter precipitation might have a negative effect during crop vegetation in late Spring and early Summer. In Uzbekistan, 90 percent of farmland uses artificial irrigation. Inefficient and crumbling irrigation systems lead to enormous water loss. Upstream hydro-electric projects and off-season releases are reducing water availability. According to independent experts, beginning this year, the region has entered another cycle

of hydrological drought that normally lasts for two-three years, with below-normal surface water available for irrigation.

As of late April, cotton sowing in all regions was almost complete. The Uzbek government announced that the target planted area in MY08/09 would be 1.391 million hectares. The state production target for seed cotton nevertheless remains 3.6 MMT. Because of certain problems with irrigation water supplies before planting, Post's preliminary forecasts MY08/09 lint cotton production at 5.365 million bales which is 135,000 bales lower than last year's estimate. Production of Extra-Long Staple cotton remains insignificant in Uzbekistan.

As of today, independent experts do not expect any quality problems as long as there is no significant precipitation during the mid autumn harvest.

Table 1: Cotton Production, Supply and Demand

Uzbekistan, Republic of Cotton										
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Yr Begin		08/2006	08/2006		08/2007	08/2007		08/2008	08/2008	MM/YYYY
Area Planted	0	0	0	0	1430	0	0	0	1430	(HECTARE S)
Area Harvested	1430	1430	1430	1450	1430	1450	0	0	1430	(HECTARE S)
Beginning Stocks	1248	1248	1248	1198	1198	1198	0	0	1248	1000 480 lb.
Production	5350	5350	5350	5500	5500	5500	0	0	5365	1000 480 lb.
Imports	0	0	0	0	0	0	0	0	0	1000 480 lb.
MY Imports U.S.	0	0	0	0	0	0	0	0	0	1000 480 lb.
Total Supply	6598	6598	6598	6698	6698	6698	0	0	6613	1000 480 lb.
Exports	4500	4500	4500	4450	4580	4450	0	0	4500	1000 480 lb.
Use	900	900	900	1000	920	1000	0	0	1000	1000 480 lb.
Loss	0	0	0	0	0	0	0	0	0	1000 480 lb.
Total Dom. Cons.	900	900	900	1000	920	1000	0	0	1000	1000 480 lb.
Ending Stocks	1198	1198	1198	1248	1198	1248	0	0	1113	1000 480 lb.
Total Distribution	6598	6598	6598	6698	6698	6698	0	0	6613	1000 480 lb.
Stock to Use %	22	22	22	23	22	23	0	0	21	(PERCENT)
Yield	815	815	815	826	837	826	0	0	817	(KG/HA)

Uzbek farmers use a variety of high-yielding, early-maturing cotton varieties. In 2008, as in 2007, the main varieties sown are reportedly Bukhara-6, Bukhara-8, An-Bayavut-2 and Namangan-77 local cotton varieties. Each variety has unique characteristics for maturity, yield and disease-resistance. They are all sown in different regions depending on soil conditions. Cotton experts reportedly value An-Bayavut-2 and it is sown in 3-4 big cotton growing regions such as Syrdarya and Djizakh. Except for Bukhara-8, which is relatively new, most varieties were developed 10-15 years ago. Transgenic BT cotton is not approved for planting.

Table 2: FY2007/08 Seed Cotton Plant area and production

REGION	Area (Ha)	Target (MT)	Actual Production
Karakalpakstan Rep.	102,173	185,000	196,137
Andijan region	113,156	310,000	310,021
Bukhara region	127,948	360,000	385,486
Djizakh region	106,750	234,000	250,408
Kashkadarya region	181,000	426,000	450,924
Navoi region	39,400	110,000	111,425
Namangan region	103,104	261,000	261,026
Samarkand region	103,400	248,000	263,850
Surkhandarya region	123,000	345,000	345,347
Syrdarya region	115,744	248,000	248,009
Tashkent region	108,000	275,000	275,028
Fergana region	115,300	323,000	323,064
Khorezm region	100,563	275,000	275,049
TOTAL	1,449,538	3,600,000	3,695,774

Production Policy

Almost all state farms have been privatized and reorganized into private farms. In spite of implementing structural reforms in the agricultural sector, the government still maintains tight control over all aspects of production including planting area and production targets, prices, inputs, procurement and marketing of most of the cotton in Uzbekistan.

Cotton has been the cash crop in Uzbekistan for generations and a significant source of employment and foreign exchange. However, for the past several years, Uzbekistan has been experiencing serious problems in cotton production for a number of reasons, including weather, inadequate production incentives (i.e. prices), inadequate and low-quality inputs and deteriorating infrastructure, especially irrigation.

Year by year, Uzbekistan is increasing the area sown with faster-maturing varieties. During the last five years, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality.

The cotton ginning industry is one area of the country's economy where new investments are needed but little has improved despite the government's efforts.

Consumption

The government has often stated that it would like to consume more of Uzbekistan's cotton production domestically, but it has had only limited success. Less than 30 percent of all cotton is consumed domestically. Effective ginning capacity is estimated to be well below the 6.0 MMT of installed capacity due to equipment problems. Taking into account these and other production problems the government recently announced a modernization and reconstruction program for some cotton gins during 2007-2011. According to this program, the government is planning to modernize 41 cotton gins and close 30 cotton gins in big cities, in particular those gins with old equipment and with the lowest efficiency.

All cotton lint is still sold either to the trading companies of the Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) for export and partially allocated to the Republican Commodity exchange that organizes cotton lint sales for domestic consumers.

The spinning and weaving industries continue to invest heavily in new equipment as well as to renovate existing equipment due to improving profitability over the past five years. Domestic demand is getting stronger with a marginal increase over the last year, so also is export demand, especially in cotton yarn. Looking to 2007-08, the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than to rely mainly on low-value yarn based exports, if it wants to remain competitive in the global market.

Currently, there are more than 40 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2007, foreign investment in the textile industry reached about USD 1.0 billion. As a result of opening new textile mills cotton yarn production is projected to be increased by 50,000 tons, stockinet by 18,000 tons, fabrics by 5.5 million square meters, and knitted products by 7.7 million pieces.

The main products produced and exported by textile mills are cotton yarn and gray fabrics. The industry is expanding production of value-added products such as shirts and other garments for the export market. According to the government's plan for the textile industry, by the end of 2008 the volume of domestic cotton lint processing will increase as much as 50 percent through modernization and technical improvement of existing enterprises.

Trade

Uzbekistan's cotton exports are estimated to decline slightly in MY 2007/08, to 4.45 million bales compared to the last MY. The preliminary export forecast for MY08/09 is 4.5 million bales, assuming normal weather during the growing and harvest seasons. The government still controls both state-order cotton and over-quota free cotton through the trading companies associated with MFERIT. MFERIT coordinates sales, export prices and shipments of all cotton. China, Bangladesh, Korea, and Russia remain the traditional buyers of Uzbek cotton.

Marketing

The Uzbek government still maintains tight control over all aspects of cotton production, including planted area, setting up production targets, prices, inputs, procurement and marketing the majority of the cotton in Uzbekistan. Domestic cotton is allocated according to the government's quota or plan, mostly to State Joint-Stock Company "Ozengilsanoat" which then distributes cotton to domestic millers according to sales contracts. Local textile mills can also buy cotton through the Commodity Exchange.

Cotton trade remains in the hands of the Ministry of Foreign Economic Relations and Trade (MFERIT) determines the total volume of cotton designated for export based on the official

crop forecast. Then it is allocated on an as-needed basis to exporters depending on their concluded contracts. Below are the basic procedures for how the cotton export contract is handled:

- An exporter registers a contract within MFERIT and notifies his buyer that the contract has come into force;
- If the contract stipulates substantial advance payment, the exporter provides the guarantee by the National Bank of Uzbekistan; the buyer also provides bank details.
- After a buyer makes an advance payment, he sends a request to the a seller with indication of volumes, production region, grade and shipment terms for the first lot;
- Per buyer's instructions, an exporter sends its shipping orders to regional branches of cotton supplying agencies.
- After receipt of export notification, the buyer can inspect the quality of shipped cotton;
- When shipping cotton on FOB port terms an importer signs a transportation contract with a shipping company. After getting buyer's instruction an exporter gives shipping instruction to its own transportation agent.
- After completion of shipment an exporter receives shipping documents according to which he issues an invoice to the buyer;
- An invoice is paid by the importer or accounts are settled based on pre-advance payment made prior to shipment;

Cotton is shipped by rail to Bandar Abbas on the Persian Gulf as well as through Russia.